YEOHATA INDUSTRIES SDN BHD & ANOR

v.

COIL MASTER SDN BHD & ORS

HIGH COURT MALAYA, KUALA LUMPUR
RAMLY ALI JC
[SUIT NO: D9-22-197-2001]
11 MAY 2001

CIVIL PROCEDURE: *Injunction - Interlocutory injunction, application for - Whether there were serious issues to be tried - Whether justice of the case lay in favour of granting the injunction*

CIVIL PROCEDURE: *Injunction - Interlocutory injunction - Application for - Whether serious issues to be tried - Balance of convenience - Whether damages an adequate remedy*

CIVIL PROCEDURE: *Injunction - Interlocutory injunction, application for - Damages - Whether plaintiff would be able to honour undertaking as to damages - Whether defendants would be able to satisfy damages - Whether factors were in favour of granting injunction*

CIVIL PROCEDURE: *Injunction - Interlocutory injunction to restrain disclosure of confidential information - Whether there were 'special factors' to take into consideration*

CIVIL PROCEDURE: *Injunction - Interlocutory injunction - Interlocutory mandatory injunction - Test for granting injunction - Whether plaintiffs would be irreparably injured and inconvenienced if injunction not granted - Whether it was just and equitable to grant the injunction*

The 1st plaintiff, the inventor of a machine making mosquito coils ('Yeohata'), granted a license agreement to the 2nd plaintiff to manufacture, operate and sell the Yeohata. The 2nd defendant was the managing director of Moscoil Enterprise Sdn Bhd, the sole marketing agent of the 2nd plaintiff's products whereas the 3rd defendant was the research and development engineer for the 2nd plaintiff.

The plaintiffs alleged that the defendants, by virtue of these positions, had unlawfully used the confidential information relating to the production, operation and marketing of the Yeohata to profit for themselves by manufacturing and selling imitation machines ('Coilmaster MK1') under the 1st defendant company. Therefore, the plaintiffs applied for an interlocutory injunction against the defendants to restrain them from using the confidential information to manufacture, market or sell Coilmaster MK1. They also applied

for the defendants to be prohibited from publishing any material about the plaintiffs or the Yeohata, and a mandatory injunction against the defendants to submit everything relating to the manufacture, production and marketing of both the Yeohata and Coilmaster MK1 to the plaintiffs.

Held:

[1] After considering the relevant pleadings and affidavits of the two parties, there were five serious triable issues: i) whether the process in the development of the Yeohata was capable of being patented and whether Coilmaster MK1 was an imitation of the Yeohata; ii) whether the defendants were entitled to make use of the confidential information for their private advantage; iii) whether the misrepresentation by the defendants was fraudulent and misleading; iv) whether the defendants discharged their duty of good faith and fidelity; and v) whether there was a conspiracy between the defendants and their foreign partner to injure the plaintiff's business.

[2] The plaintiffs were in a better position in their ability to pay damages in the event the defendants succeeded at the trial and the balance of convenience in this proceeding lay in favour of granting the injunction.

[3] The risk that other companies could unlawfully use the confidential information to manufacture and market a similar machine like the Yeohata and the possibility that the defendants and their foreign partner had conspired to injure the plaintiffs' business constituted special factors that required intervention by way of an injunctive relief.

[4] The mandatory injunction was granted on the ground that it would be just and equitable that the plaintiffs' interest be protected in order to avoid irreparable damages and inconvenience to the plaintiffs.

[Application granted with costs.]

Case(s) referred to:

American Cyanamid v. Ethicon Ltd [1975] AC 396 ***(foll)***
Cranleigh Precision Engineering Ltd v. Byrant & Anor [1964] 3 All ER 289 ***(refd)***
Electro Cad Australia Pty Ltd & Ors v. Melati RCS Sdn Bhd [1998] 3 CLJ Supp 196 ***(refd)***
Keet Gerald Francis Noel John v. Mohd Noor Abdullah [1995] 1 CLJ 293 ***(refd)***
Lien Keow Sdn Bhd & Anor v. Overseas Credit Finance (M) Bhd [1982] 2 MLJ 271 ***(foll)***
MGG Pillai v. Tan Sri Dato Vincent Tan Chee Yioun [1995] 2 MLJ 493 ***(refd)***
Schmidt Scientific Sdn Bhd v. Ong Han Suan & Ors [1998] 1 CLJ 685 ***(refd)***
Sivaperuman v. Heah Seok Yeong Realty Sdn Bhd [1979] 1 MLJ 150 ***(refd)***
Sri Alam Sdn Bhd v. Newacres Sdn Bhd [1995] 4 CLJ 73 ***(refd)***

Standix International Ltd v. CB Blades and CB Blades Ltd [1976] FSR 114 ***(refd)***
Tinta Press Sdn Bhd v. Bank Islam Malaysia Bhd [1987] 1 CLJ 447 ***(refd)***

For the plaintiffs - PC Neoh; M/s Suhaimi Khor Zulkifli & Chang
For the defendants - K Ananthan; M/s Skrine & Co

Reported by Suresh Nathan

JUDGMENT

Ramly Ali JC:

The plaintiffs have filed an application (encl. 2) for an interlocutory injunction against the defendants, for an order, *inter alia*, that:

a) the defendants and each of them either by themselves, their servants or agents or otherwise howsoever be restrained from using the confidential information of the plaintiffs or any part thereof and from manufacturing, marketing or selling "Coilmaster MK1" and or any product derived from making use of the confidential information or otherwise from exploiting the said information or any part thereof until disposal of this suit.

b) the defendants and each of them either by themselves, their servants or agents or otherwise howsoever be restrained and or prohibited from writing, publishing or cause to be published any material about the plaintiffs and or the Yeohata in whatever form or manner until disposal of this suit.

c) A mandatory injunction that the defendants deliver to the plaintiffs all books, records, statements, drawings, specifications, technical manual and data, service manual, sales report relating to the manufacture, production and marketing of both "Yeohata" and "Coilmaster MK1" or otherwise belonging to the plaintiffs and or Moscoil Enterprise (M) Sdn Bhd within seven days from the date of service of the order.

From the above prayers, it is clear that prayers (a) and (b) are in the form of prohibitory injunction while prayer (c) is in the form of mandatory injunction.

Facts Of The Case

The 1st plaintiff is and was at all material times claimed to be the inventor of the apparatus and process more commonly known in the trade as "Yeohata" and the applicant for the Malaysian patent under Application No: P1 9704954 which was filed on 21 October 1997. The 2nd plaintiff's principal business involves manufacturing and exporting mosquito coil making machine known as the "Yeohata". The 2nd plaintiff also manufactures and sells insecticide products such as mosquito coils, mosquito vaporiser mat and aerosol spray.

By virtue of a licence agreement granted by the 1st plaintiff to the 2nd plaintiff to manufacture the "Yeohata" and to deal with all information relating thereto, the 2nd plaintiff is beneficially entitled to deal with all confidential information relating to the manufacture, operation and sale of the "Yeohata". The 2nd defendant is and was at the material times the managing director of Moscoil Enterprise Sdn Bhd, the sole marketing agent of the 2nd plaintiff's products. By virtue of the 2nd defendants position in Moscoil Enterprise Sdn Bhd the plaintiffs alleged that he had acquired confidential information relating to the sale, marketing and customers of the plaintiffs, in particular:

i) marketing strategy of the plaintiffs;

ii) customer list, existing and potential of the plaintiffs;

iii) customers portfolio;

iv) costs of production and marketing;

v) pricing Strategy;

vi) confidential information relating to supply of materials, equipment and parts.

The 3rd defendant was all material times the research and development engineer of the 2nd plaintiff. By reason of the position, the plaintiffs alleged that the 3rd defendant acquired confidential information, namely:

i) technical information, specification, and design of Yeohata;

ii) technical know how and operation of Yeohata;

iii) source of manufacturing materials, equipment and parts;

iv) costing and pricing of Yeohata.

The 2nd defendant (whilst still a director of Moscoil Enterprise (M) Sdn Bhd) and the 3rd defendant (whilst still under the employ of the 2nd plaintiff) incorporated the 1st defendant company to manufacture and sell mosquito coil making machines by the trade name "Coilmaster MK1" on 20 July 1999. They are the directors of the 1st defendant company. The share holders of the 1st defendant company are the 2nd defendant and his wife owning 71% of the equity and the remaining 29% by a foreign company who was a potential customer of the 2nd plaintiff. The 3rd defendant resigned from the 2nd plaintiff company on 21 April 2000. The plaintiffs' main cause of action against the defendants is the unlawful use of confidential information relating to the production, operation and marketing of the Yeohata. The plaintiffs alleged that the defendants (particularly 2nd and 3rd defendants) have unlawfully made use of the confidential information otherwise than for the purpose for which it was

supplied to them and have unlawfully made profit for themselves to the detriment of the plaintiffs by the manufacture and selling of the imitation machines.

It is settled law that when deciding whether to grant or not to grant an application for an interlocutory injunction the decision of the House of Lords in *American Cyanamid v. Ethicon Ltd* [1975] AC 396 and the Federal Court in *Lien Keow Sdn Bhd & Anor v. Overseas Credit Finance (M) Bhd* [1982] 2 MLJ 271 stipulates that the court should as a general rule have regard only to the following criteria:

a) First - Is there a serious issue to be tried?

b) Secondly - Are damages an adequate remedy?

c) Thirdly - Where does the "balance of convenience" lie?

d) Fourthly - Are there any "special factors"?

In coming to those conclusions the court must examine the relevant pleadings and affidavits.

First Criteria

Is there a serious issue to be tried? Going through the relevant pleadings and the affidavits of both parties, I am satisfied that there are five *bona fide* serious issue that need to be tried. Those issue are as follows:

i) First Issue:

The 1st plaintiff claimed that it is and was at all material times the inventor of the apparatus and process more commonly known in the trade as "Yeohata" and the applicant for the Malaysian Patent Under Application No: P1 9704954 which was filed on 21 October 1997. The defendants in their affidavit-in-reply have contended that the plaintiffs have no experience in the production and marketing of mosquito coil making machines and products and that the development process of the 1st generation machines to the present state of the art machines cannot be deemed as an "invention". The first issue to be tried here is: whether the process in the development of the "Yeohata" is an invention capable of being patented and whether "Coilmaster MK1" (produced by the defendants) is a copy or an imitation of the plaintiff's machine the "Yeohata".

ii) Second Issue

In the course of the development of the Yeohata the plaintiffs imparted confidential information to the 2nd and relating to the sale, marketing and

customers of the plaintiffs and 3rd defendants relating to technical specifications and design, operation of Yeohata and source of manufacturing materials, equipment and parts. The plaintiffs contended that the 2nd and 3rd defendants received the said confidential information well knowing the limited purpose for which it was communicated, by reason where of they became and were at all material times under a duty of trust and confidence towards the plaintiffs in respect of the said confidential information and were not entitled to use the said confidential information or any part thereof without prior consent of the plaintiffs for any purpose other than for which it was supplied to them. The information was also received by them as fiduciaries. The second issue being whether the 2nd and 3rd defendants are entitled to make use of the confidential information for their private advantage whilst acting as the managing director of Moscoil Enterprise Sdn Bhd. (the sole marketing agent of the plaintiff's product) in the case of the former and as the research and development engineer in the case of the latter before and after his resignation from the plaintiff's company. There are authorities in law which say that persons (in the position of the defendants in our case) cannot take advantage of such confidential information and are fiduciaries. The authorities are

i) *Cranleigh Precision Engineering Ltd v. Byrant & Anor* [1964] 3 All ER 289.

ii) *Electro Cad Australia Pty Ltd & Ors v. Melati RCS Sdn Bhd* [1998] 3 CLJ Supp 196.

iii) Third Issue

The plaintiffs contended that the defendants have unlawfully made use of the confidential information otherwise than for the purpose for which it was supplied to them and have unlawfully made profits for themselves to the detriment of the plaintiffs by the manufacture and selling an imitation machine and otherwise claiming to "formerly made and market the Yeohata machine for another company" and claiming that the "Coilmaster MK1" "is manufactured by the same engineer who successfully produced the most acceptable pneumatic machine in the market". The plaintiffs contended that the 1st defendant could not have manufactured any machines prior to its incorporation in 1999. Therefore the 1st defendant cannot make any claim that it had previously manufactured the Yeohata machines. The 2nd defendant could not at all material times be a manufacturer of the Yeohata machine as he was only a shareholder and managing director of Moscoil Enterprise (M) Sdn Bhd, the sole marketing agent of the 2nd plaintiff. He was never a shareholder of the two plaintiffs companies. The 3rd defendant could not also claim to be manufacturer of the Yeohata as he was at all material times an

employee of the 2nd plaintiff. The issue here is whether the misrepresentation by the defendants is fraudulent and misleading.

iv) Fourth Issue

From the above facts, another issue that needs to be tried is whether the 2nd and 3rd defendants have discharged their duty of good faith and fidelity. It is trite that the duty of good faith does not only prohibit an employee from misusing or disclosing information whilst still in the employer's employ but also prohibit the employee from using any confidential information obtained during his employment without the employer's consent for his own or someone else's use after the employment contract (see: *Schmidt Scientific Sdn Bhd v. Ong Han Suan & Ors* [1998] 1 CLJ 685). Trade secrets were not limited to manufacturing process or secret formulas but extended also to information relating to customers, supplies, costs prices, and specific needs and requirements of the customers. In *Sri Alam Sdn Bhd v. Newacres Sdn Bhd* [1995] 4 CLJ 73 it was held that:

> There was a rule that a fiduciary was under an obligation not to profit from his position. The classes of case in which a fiduciary duty has been held to exist were not closed. The strength or severity of the rule that no fiduciary might profit from his position as a fiduciary was said to be an "inflexible" rule of equity. That inflexible rule of equity depended not on fraud or absence of *bona fide*, but on the mere fact of a profit being made.

v) Fifth Issue

The plaintiffs also alleged that the defendants together with their foreign partner have conspired to injure the plaintiffs by not disclosing about the incorporation of the 1st defendant in July 1999 and their intention to sell "Coilmaster MK1" while Moscoil Enterprise (M) Sdn Bhd is still the sole marketing agent of the 2nd plaintiff. Plaintiffs also questioned why the 3rd defendant did not inform or disclose to the 2nd plaintiff (his employer) that prior to his resignation, and whilst still working for the 2nd plaintiff, he was already preparing to manufacture the "Coilmaster MK1". Another issue of conspiracy raised by the plaintiffs is that the foreign shareholder of the 1st defendant did visit the plaintiff's factory in October 2000 (as their potential customer) when it was registered as a shareholder of the 1st defendant in July 2000 and questioned why the said foreign partner did not complete the sale (with the plaintiffs) as per the performa invoice issued on by the 2nd plaintiff. The plaintiffs also alleged that the defendants were intercepting and diverting orders since April 2000. All these matters raise an issue of conspiracy between the defendants and their foreign partner to injure the business of the plaintiffs. Conspiracy is a tort

that is not always capable of proof by direct evidence. An agreement to do an unlawful act or a lawful act by unlawful means may be established by evidence of circumstances from which such an agreement may be inferred. (see: *MGG Pillai v. Tan Sri Dato Vincent Tan Chee Yioun* [1995] 2 MLJ 493).

These are serious triable issues that need to be tired. The available evidence at this stage by way of affidavits is incomplete, conflicting and untested. In *American Cyanamid*'s case, it was held that:

> It is no part of the court's function at this stage of the litigation to try to resolve conflict of evidence on affidavits as to facts on which the claims of either party may ultimately depend nor to decide difficult question of law which call for detailed argument and mature considerations. These are matters to be dealt with at the trial.

Gopal Sri Ram JCA in *Keet Gerald Francis Noel John v. Mohd Noor Abdullah* [1995] 1 CLJ 293 had said that the judge:

> must ask himself whether the totality of the facts presented before him discloses a *bona fide* serious issues to be tried. He must, when considering this question, bear in mind that the pleadings and evidence are incomplete at that stage. Above all he must refrain from making any determination on the merits of the claim or any defence to it. It is sufficient if he identifies with precision the issues raised on the joinder and decides whether these are serious enough to merit a trial.

Second And Third Criteria

Are damages an adequate remedy? Where does the balance of convenience lie? Having found that there are *bona fide* serious issues that need to be tried, the next step to consider is whether damages or compensation is an adequate remedy for the plaintiffs. If it is so, then application for an injunction should be dismissed. If, on the other hand, it is not so, the application for injunction may be allowed subject to the balance of convenience be in the plaintiffs' favour. The issues of damages being an adequate remedy and balance of convenience in this case are closely related and thus will be considered together.

The plaintiffs were in the business for over 25 years and have experience and reputation in the industry all along the period. The 1st defendant was only incorporated in July 1999 and there are allegations in the affidavits that from the very beginning of its operations, it had relied on intercepting and diverting the plaintiffs customers to their business. The plaintiffs have also incurred approximately RM2,888,000 in development expenditure. If an injunction is not granted as prayed by the plaintiffs in encl. 2, the plaintiff will suffer irreparable damages to their business and reputation in that the defendants will

continue to make false claim, fraudulent misrepresentations to third parties and to injure the name and business of the plaintiffs. The injury cannot be compensated by damages. In fact, the defendants in using their brochures to sell the "Coilmaster MK1" make continued reference to the "Yeohata" machines indicates that they are trying to pass-off that they have the same expertise and experience in the making of mosquito coil making machine and that their machines were their sole creation when in fact it was said to be developed from the confidential information and know-how of the plaintiff companies. The defendants have misrepresented (encl. 3, exhs. 13 and 14) that "we would advise that previously we made the Yeohata machine for another company. We now make our own brand machinery called "Coilmaster MK1" which is 30% faster than the Yeohata". Since the 2nd defendants is the managing director of Moscoil Enterprise (M) Sdn Bhd the sole marketing agent of the 2nd plaintiff and is diverting orders to the 1st defendant, the plaintiffs have now to rebuild their marketing network to prevent further sabotage. All these damages are extremely difficult to be assessed.

The parties ability to pay damages in the event the other side succeed in the action during trial, is another important issue to be determined in deciding whether damages is an adequate remedy. In *American Cyanamid*'s case *(supra)* it was held that "if damages in the measure recoverable at common law would be an adequate remedy and the defendant would be in a financial position to pay them, no interlocutory injunction should normally be granted, however strong the plaintiff's claim appeared to be at that stage. If, on the other hand damages would not provide an adequate remedy for the plaintiff in the event of his succeeding at the trial, the court should then consider, on the contrary hypothesis that the defendants were to succeed at the trial in establishing his right to do that which was sought to be enjoined, he would be adequately compensated under the plaintiff's undertaking as to damages for the loss he would have sustained by being prevented from doing so between the time of the application and the time of trial. If damages in the measure recoverable under such an undertaking would be an adequate remedy and the plaintiff would be in a financial position to pay them, there would be no reason on this ground to refuse an interlocutory application.

In this regard, Buckley LJ in *Standix International Ltd v. CB Blades and CB Blades Ltd* [1976] FSR 114, held that:

> There is a further consideration whether, if at the trial the Plaintiffs were to succeed and the defendants had not been restrained in the meanwhile, the defendants would be good for any damages to which the Plaintiffs might then be entitled in respect of what had occurred between the present time and the trial of the action.

In our present case, the 1st defendant company had just been incorporated in July 1999 and started operation after that. The paid-up capital of the 1st defendant is RM500,000. It has not been long in business. There seems to me to be no ground for supposing that it has had an opportunity to build up any substantial reserves. It must have had to spend a considerable part of the proceeds of its paid-up capital in acquiring capital assets required to carry on the business. I do not see any substantial grounds for supposing that the 1st defendant company would be in a position to pay substantial damages to the plaintiffs in the event the plaintiffs succeed during the trial.

On the other hand the plaintiffs is more established in their existence and operation of their respective business. From 4 October 1998 to 29 June 2000 the plaintiff companies were able to generate total export sales in excess of US$2.9 million. Altogether 29 units of the Yeohata were sold world wide. Obviously, between the two, the plaintiffs are in a better position to pay damages on their undertakings.

The defendants in their submissions submitted that the nature of the injunctive reliefs applied for by the plaintiffs amount to a restrain of trade on part of the defendants. I am of the view that the question of restrain of trade on part of the defendants does not arise here. The plaintiffs are not trying to restrain the defendants from trading in mosquito coil making machine, but the plaintiff's cause of action against the defendants is the unlawful use of confidential information relating to the production, operation and marketing of the Yeohata. In *Schmidt Scientifie Sdn Bhd v. Ong Han Suan & Ors (supra)* it was held that:

> The allegation of restraint of trade failed as the plaintiff was not attempting to restrain the defendants from entering into the same trade but from using or disclosing confidential information and or trade secrets of the plaintiff to the detriment of the plaintiff.

In the premise, I have no hesitation to hold that the balance of convenience in this proceeding lies in favour of granting the injunction as prayed by the plaintiffs. It is also my finding that the plaintiffs are in a better position to their ability to pay damages in the event the defendants were to succeed at the trial.

Fourth Criteria

Are there any "special factors" to grant injunctive relief?

The 2nd plaintiff company is a leading Malaysian exporter of mosquito coil making machine and has developed the said machines from its own internal resources and expertise. If injunction is not granted, then any other company including foreign ones could unlawfully use the confidential information to

manufacture and market a "copycat" machine like the Yeohata, thereby destroying an infant industry. This risk seems to be real in the present case, when a foreign partner (Zobell International BV) have 29% equity in the 1st defendant. There is also indication that the defendants and their foreign partner (Zobell) have conspired to injure the plaintiffs business. From the affidavits, the said Zobell had initially wanted to purchase the Yeohata from the 2nd plaintiff and infact were negotiating the said sale through the 2nd defendant as managing director of Moscoil Enterprise (M) Sdn Bhd, the sole marketing agent. Even a proforma invoice was issued after their visit to the plaintiff's factory in October 2000. But they did not proceed the sale. Instead they conspired with the defendants and went into the production of the "Coilmaster MK1" after gaining all the necessary confidential information. The court has to take a robust approach to stamp out such business practice. I consider this matter as special factors that requires intervention of the court by way of an injunctive relief. In *American Cyanamid*'s case *(supra)* Lord Diplock said:

> I would reiterate that, in addition to those I have referred, there may be many other special factors to be taken into consideration in the particular circumstances of individual cases.

Mandatory Injunction

Prayer (c) of the plaintiffs encl. 2, is in the form of mandatory injunction. In granting such an injunction, the court has to be satisfied that there is unusually strong and clear assurance that a similar injunction would probably be granted at the trial on the ground that it would be just and equitable that the interest of the plaintiff be protected by the immediate issue of the injunction otherwise irreparable injury and inconvenience would result. This test was laid down by the Supreme Court in *Tinta Press Sdn Bhd v. Bank Islam Malaysia Bhd* [1987] 1 CLJ 447 and the Federal Court in *Sivaperuman v. Heah Seok Yeong Realty Sdn Bhd* [1979] 1 MLJ 150.

Based on the facts of our present case and applying the test laid down in the above authorities I am satisfied that this is a fit and proper case to grant the mandatory injunction as prayed under prayer (c) of encl. 2, on the ground that it would be just and equitable that the plaintiff's interest be protected in order to avoid irreparable damages and inconvenience to the plaintiffs'.

Conclusion

Based on the above considerations, I am of the view that this is a proper case to grant the order of injunction as prayed by the plaintiffs against the defendants in encl. 2. Thus, the plaintiffs' application as per encl. 2 is granted with costs.